

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of an Investigation into
Southwest Power Pool Cost Allocations and
Cost Overruns

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File No. EO-2011-0134

MOTION TO CLOSE CASE

Issue Date: January 13, 2012

More than half a century ago, President Eisenhower delivered his farewell address and famously warned the American people of the “military-industrial complex.” The term commonly refers to the policy and monetary relationships between members of Congress and other government officials, our nation’s armed forces, and the industrial base that supports them. These relationships include political contributions, political approval for defense spending, lobbying to support bureaucracies, beneficial legislation and oversight of the industry.

The military-industrial complex may have been the first iron triangle where the bureaucrats, legislators and special-interest groups all intersect, but it certainly wasn’t the last. The same thing has happened in the energy industry where, after feverish lobbying, Congress has passed laws, FERC has implemented those laws and the Regional Transmission Organizations (RTOs)/Independent Systems Operators (ISOs) were created.

There are now more than half a dozen of RTOs/ISOs spanning all across North American from Manitoba, Canada, to the Gulf of Mexico and from Maine to California. Within the next decade or so, every utility in the country will be forced to join one.

Supporters of RTOs and ISOs proclaim they are the free market in action, but these

markets are anything but free. Socializing the costs of new transmission to all customers under the guise that everyone will benefit, creating capacity and “resource adequacy” markets to subsidize generators as well as the introduction of pricing for transmission constraints in lieu of the traditional “pancaking” of transmission rates are all new facets of the RTO/ISO model with the same end result – separating consumers from their money. To make everyone feel better, RTOs and ISOs produce an endless supply of cost-benefit studies to justify their claims that these added expenses are actually saving us all money. However, it’s important to remember that few people, if any, present at the table when the deal is cut are actually there representing end-use consumers.

In the end, FERC has created an RTO/ISO model for electricity with little or no accountability. There is a definite symbiotic relationship between the RTOs, FERC and the utilities under their jurisdiction. Billions of dollars are flowing through these markets and one almost needs a doctoral degree in economics to fully understand their operation. There are thousands of pages of rules and regulations.

Perhaps no RTO is more emblematic of this convergence between law, the bureaucracy and the industry than SPP because the board really doesn’t meet outside the presence of all the large generation and transmission-owning members. Hailing from Little Rock, Arkansas, SPP is friendlier and more open than most RTOs/ISOs I have observed, but it still has the same weaknesses. SPP champions every moment where the board has voted against the members committee, but those moments are few and far between. More often than not, those moments don’t last either.

More than a year ago, I urged this Commission to open an investigation into the

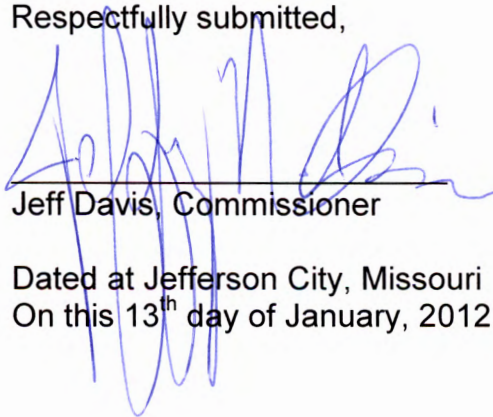
selection and funding of interstate electric transmission projects within the Southwest Power Pool footprint after a number of the companies building transmission projects announced construction cost overruns. This was largely in response to a discussion at a Commission meeting and memorialized by SNL Energy in a story dated September 23, 2010, when then SPP Senior Vice President of Engineering & Regulatory Policy, Les Dillahunty, responded to a query about SPP's lack of rigor in reviewing construction cost estimates by stating "I can't answer that. I don't know why we didn't do that" and "We put those estimates out there, but we didn't go through the rigor. Why we didn't... I don't know."

One can posit that SPP was trying to curry favor with FERC or that they really started believing the vigorous lobbying efforts of all the people who benefit financially from the construction of these projects. The truth is we'll never know. Either way, something had to be done. Initiating this investigation and pursuing the same questions through the Regional State Committee (RSC) has produced some modest improvements to the SPP process.

Although I still have concerns whether the transmission being built in SPP is necessary and what it's going to cost, I believe that this investigation has run its course and nothing can be further served by keeping this docket open. SPP has made some modest changes to their cost-estimating process and, hopefully, more improvements will be to both the project selection process as well as the cost-estimating process in response to FERC's issuance of an order to eliminate the right of first refusal for incumbent utilities to build transmission projects designated for construction in their respective service territories.

Accordingly, nothing more can be gained from this investigation at this time and I move the investigatory docket be closed.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Jeff Davis", is written over a horizontal line.

Jeff Davis, Commissioner

Dated at Jefferson City, Missouri
On this 13th day of January, 2012.